

**KENT CITY
COMMUNITY SCHOOLS
Kent County, Michigan**

Comprehensive Annual Financial Report

For the year ended June 30, 2005

KENT CITY COMMUNITY SCHOOLS
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For the year ended June 30, 2005

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FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

August 22, 2005

The Board of Education
Kent City Community Schools

We have audited the accompanying financial statements of the governmental activities, the major funds and the aggregate remaining fund information of Kent City Community Schools (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major funds and the aggregate remaining fund information of Kent City Community Schools as of June 30, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2005 on our consideration of Kent City Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Kent City Community Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Alden, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis June 30, 2005



As management of the Kent City Community Schools (“the District”), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the District’s financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District’s operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District’s assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District’s net assets, and how they have changed. Net assets - the difference between the District’s assets and liabilities - is one way to measure the District’s financial health or position.

- Over time, increases or decreases in the District’s net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District’s overall health, one should consider additional non-financial factors such as changes in the District’s property tax-base and the condition of school buildings and other facilities.

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis June 30, 2005



In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Condensed District-Wide Financial Information

The Statement of Net Assets provides financial information on the District as a whole.

	<u>2005</u>	<u>2004</u>
Assets		
Current assets	\$ 6,418,952	\$ 13,669,199
Capital assets, net book value	<u>23,717,013</u>	<u>17,434,922</u>
Total Assets	<u>30,135,965</u>	<u>31,104,121</u>
Liabilities		
Current liabilities	3,695,471	3,952,229
Long-term liabilities	<u>24,820,052</u>	<u>25,070,214</u>
Total Liabilities	<u>28,515,523</u>	<u>29,022,443</u>
Net Assets		
Invested in capital assets, net of related debt	398,073	1,44,288
Restricted	413,162	256,246
Unrestricted	<u>809,207</u>	<u>1,370,402</u>
Total Net Assets	<u>\$ 1,620,442</u>	<u>\$ 2,081,678</u>

The results of the fiscal year's operations for the District as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis June 30, 2005



The Statement of Activities presents changes in net assets from operating results:

	2005	2004
Program Revenues		
Charges for services	\$ 358,469	\$ 390,735
Operating grants	1,700,725	1,480,786
General Revenues		
Property taxes	1,913,348	1,807,303
State school aid, unrestricted	9,018,295	9,223,071
Interest earnings	121,456	303,517
Loss on disposal of capital assets	(23,960)	(302,195)
Other	43,959	32,319
Total Revenues	13,132,292	12,935,536
Expenses		
Instruction	\$ 7,328,104	7,874,632
Supporting services	4,069,284	3,847,743
Community services	213,074	210,404
Food service	436,304	418,670
Athletics	298,387	333,446
Other	4,230	—
Interest expense	1,174,063	1,182,683
Depreciation - unallocated	70,082	67,112
Total Expenses	13,593,528	13,934,690
Decrease in net assets	(461,236)	(999,154)
Net Assets - Beginning of Year	2,081,678	3,080,832
Net Assets - End of Year	\$ 1,620,442	\$ 2,081,678

Financial Analysis of the District as a Whole

The District's financial position is the product of many factors. District wide revenues increased and overall expenses decreased from the previous year. The combination of increased revenues and decreased expenses still was not enough to cause a gain in net assets. The decrease was lower by 46% than in the previous year. There has been new cooperative ventures that may bring in additional revenues. These cooperative ventures did cause a shift in expense classifications. The District's construction projects have a value of \$13 million in progress.

The District's total revenues increased by 1.5 percent to \$13.1 million. Property taxes contributed 14.5 percent of revenue while unrestricted state aid accounted for 69 percent of the District's revenue. Another 15.7 percent came from federal and state aid for specific programs and the remainder from fees charged for services, investment income and miscellaneous sources.

The total cost of all programs and services decreased 2.44 percent to \$13.6 million. The District's expenses are predominantly related to instructing (54 percent) and supporting activities, (30 percent). The small decrease in

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Management's Discussion and Analysis June 30, 2005



expenditures is the net result of increases in salaries and benefits and reductions in all areas. The reductions were done so as to minimize student impact.

The recent health of the District's finances can be credited to a strong and innovative management and support from the Board of Education and all employees :

- Rising real estate values led to a 5 percent increase in property tax revenues, despite the fact that tax rates remained unchanged. The reduction in State Aid was due to a poor State of Michigan economy and a reduction in student numbers.
- The District continues to evaluate and review all departments and programs. Changes that were made in the previous year continue to be monitored for their effect on the District. This process helped minimize the effects of increased wages, health insurance cost and the added cost of State mandated retirement contributions by the district.
- The cost of all governmental activities this year was \$13.6 million.
- Some of the cost was financed by the users of the District's programs (\$358,469).
- The federal and state governments subsidized certain programs with grants and contributions (\$1.7 million).
- Most of the District's costs (\$11.5 million) were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$1.9 million in property taxes, \$9 million of state aid based on the statewide education aid formula and the balance with interest earnings and other local sources.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship and Student Activities Funds. The District is responsible for ensuring that the assets

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis June 30, 2005



reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it can not use these assets to finance its operations.

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Kent City Community Schools funds are described as follows:

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$11,197,048, other financing sources of \$59,100, total expenditures of \$11,253,276, and total other financing uses of \$233,829. It ended the fiscal year with a fund balance of \$1,101,305, down from \$1,332,262 at June 30, 2004. The decrease was primarily due to reduction in the State foundation grant caused by a reduction in the number of students. An increase in wages and benefits and the decision by Administration not to make major programming reductions was also a factor.

2001 Construction Capital Projects Fund

The 2001 Construction Fund had interest earnings of \$91,994 and expenditures of \$7,028,934 during the fiscal year, with an ending fund balance of \$2,200,938 to be used to complete the ongoing District improvement project.

Nonmajor Funds

Special Revenue Funds

The District operates two Special Revenue Funds, for the food service and athletics programs. Total revenues were \$452,675 and other financing sources were \$228,857, with total expenditures of \$686,944. The ending fund balances totaled \$24,998, of which \$14,545 belonged to the Food Service Fund and \$10,453 to the Athletic Fund.

Debt Service Funds

The District operates two Debt Service Funds. Total revenues were \$1,263,437, total expenditures were \$1,820,120, and total other financing sources were \$567,278. Ending fund balances totaled \$110,181.

Capital Projects Funds

The Building and Site (Sinking) fund had total revenues of \$156,869, expenditures of \$14,839 with an ending fund balance of \$477,371.

Fiduciary Funds

The Scholarship Funds and the Student Activities Fund are operated as Trust and Agency Funds of the District. The assets of these funds are being held for the benefit of the District's students. Balances on hand at June 30, 2005 totaled \$155,465.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget twice. These budget amendments fall into the categories of:

- The first revision was to adjust for the changes in going from assumptions to known facts.

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis June 30, 2005



- Final changes made in June for changes in appropriations to prevent budget overruns.
- Although the District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$378,594, the actual results for the year showed a \$230,957 deficiency.
- Actual revenues were \$32,337 less than expected.
- Actual expenditures were \$173,548 below budget, due primarily to unanticipated savings.
- Expenditures in most classifications were below budget by a variety of amounts and a variety of reasons.

Capital Asset and Debt Administration

Capital Assets

By the end of 2005, the District had invested \$33 million in a broad range of capital assets, including land and improvements, school buildings, athletic facilities, vehicles, and furniture and equipment. More detailed information regarding capital assets can be found in Note E in the Notes to Basic Financial Statements. Total depreciation expense for the year was \$778,243.

- The most significant area of increase was in the area of construction in progress for the middle school and completion of the elementary connector and new transportation/maintenance facility.

The District's fiscal year 2005-06 capital projects budget include completing construction of ongoing capital projects, principally in two areas:

- To complete the new facilities for the Middle School
- Remodeling to the High School

At June 30, 2005, the District's investment in capital assets (net of accumulated depreciation) is detailed as follows:

Land	\$ 57,486
Construction in progress	13,039,035
Land improvements	1,267,632
Buildings and additions	7,821,401
Furniture and equipment	960,193
Vehicles	<u>571,266</u>
Net Capital Assets	<u>\$ 23,717,013</u>

Long-Term Debt

At year end, the District had \$23 million in general obligation bonds and installment purchase agreements outstanding. The District has also borrowed a total of \$2,485,151 from the State School Bond Loan Program and has an accumulated severance pay liability of \$95,150 and early retirement incentive liability of \$228,393.

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis June 30, 2005



- The District continued to pay down its debt, retiring \$849,000 of outstanding bonds and installment purchase agreements.

The District's bond rating for General Obligation Tax debt remains "Aa". The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the District's boundaries. The District's other obligations include advances from the State School Bond Loan Program for bond payments in excess of allowable property taxes. We present more detailed information about our long-term liabilities in the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The condition of the State of Michigan's economy and how it affects the State's funding level for education for not only the 2005-06 fiscal year but also the next several years. With approximately 83% of the District's revenue coming from the State, any reductions made by the State in education funding will have a greater impact on our District.
- In the summer of 2005, the District will be opening a newly constructed Middle School. The financial implications of this are increased fixed costs and a small amount of staff costs, with positive curriculum outcomes.
- There currently are three housing developments in a variety of planning and development stages. As homes are built in these developments the District should realize an increase in student population and greater revenues. However, these revenues will be State revenues and not local revenues, further increasing reliance on State funding. Due to the slow economic growth in northern Kent County these developments will also be slow in home construction and sales.
- Recently enacted Federal legislation (No Child Left Behind) and new State requirements and reporting changes are continuing to be implemented. As these requirements are being implemented the effect on students and district resources is just becoming to be known.
- Increasing costs of employee benefits, especially health insurance and retirement contributions to the Michigan Public School Employee Retirement System.
- As the District continues to make reductions, the items that can be further cut or reduced are dwindling. Without making deep program and personnel reductions, options are running out.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Kent City Community Schools 341 N Main Street, Kent City, MI 49330. Contact by e-mail: kent-city.k12.mi.us.

BASIC FINANCIAL STATEMENTS

KENT CITY COMMUNITY SCHOOLS
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash	\$ 450
Cash equivalents (Note B)	619,230
Investments (Note B)	3,974,249
Taxes receivable (Note C)	9,947
Due from other governmental units (Note C)	1,812,427
Inventory (Note A)	<u>2,649</u>
Total Current Assets	<u>6,418,952</u>
Noncurrent Assets	
Capital assets (Note E)	32,983,411
Less accumulated depreciation	<u>(9,266,398)</u>
Total Noncurrent Assets	<u>23,717,013</u>
Total Assets	<u>30,135,965</u>
Liabilities	
Current Liabilities	
Accounts payable	736,144
State aid anticipation loan payable (Note F)	905,000
Due to other governmental units	252,695
Payroll withholdings payable	1,087
Accrued interest payable	197,644
Salaries payable	583,406
Current portion of long term obligations	<u>1,019,495</u>
Total Current Liabilities	<u>3,695,471</u>
Noncurrent Liabilities (Note G)	
General obligation bonds payable	21,720,000
Durant nonplaintiff bonds payable	187,428
State school bond loan payable	2,485,151
Installment purchase agreements payable	180,061
Severance pay	95,150
Early retirement incentive	<u>152,262</u>
Total Noncurrent Liabilities	<u>24,820,052</u>
Total Liabilities	<u>28,515,523</u>
Net Assets	
Invested in capital assets, net of related debt	398,073
Restricted for:	
Debt service	(64,580)
Capital projects	477,742
Unrestricted	<u>809,207</u>
Total Net Assets	<u><u>\$ 1,620,442</u></u>

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Statement of Activities
For the year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 7,328,104	\$ 28,929	\$ 1,523,955	\$ (5,775,220)
Supporting services	4,069,284	3,010	-	(4,066,274)
Community services	213,074	50,763	-	(162,311)
Food service	436,304	223,401	176,770	(36,133)
Athletics	298,387	52,366	-	(246,021)
Other	4,230			(4,230)
Interest expense	1,174,063	-	-	(1,174,063)
Depreciation - unallocated	70,082	-	-	(70,082)
Total Governmental Activities	\$ 13,593,528	\$ 358,469	\$ 1,700,725	(11,534,334)
General Revenues				
Taxes:				
Property taxes, levied for general operations				500,746
Property taxes, levied for debt service				1,259,888
Property taxes, levied for capital improvements				152,714
State school aid, unrestricted				9,018,295
Interest and investment earnings				121,456
Loss on disposal of capital assets				(23,960)
Other				43,959
Total General Revenues				11,073,098
Change in Net Assets				(461,236)
Net Assets - Beginning of Year				2,081,678
Net Assets - End of Year				\$ 1,620,442

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2005

	General	2001 Construction	Nonmajor	Total
Assets				
Cash	\$ 100	\$	\$ 350	\$ 450
Cash equivalents (Note B)	21,268	1,565	596,397	619,230
Investments (Note B)	1,218,249	2,756,000	-	3,974,249
Taxes receivable (Note C)	6,447	-	3,500	9,947
Due from other funds (Note D)	3,200	-	22,072	25,272
Due from other governmental units (Note C)	1,805,665	-	6,762	1,812,427
Inventory (Note A)	-	-	2,649	2,649
Total Assets	<u>\$ 3,054,929</u>	<u>\$2,757,565</u>	<u>\$ 631,730</u>	<u>\$ 6,444,224</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 178,064	\$ 556,627	\$ 1,453	\$ 736,144
State aid anticipation loan payable (Note F)	905,000	-	-	905,000
Due to other funds (Note D)	14,556	-	10,716	25,272
Due to other governmental units	249,184	-	3,511	252,695
Payroll withholdings payable	1,087	-	-	1,087
Accrued interest payable	15,880	-	-	15,880
Salaries payable	583,406	-	-	583,406
Deferred revenue	6,447	-	3,500	9,947
Total Liabilities	<u>1,953,624</u>	<u>556,627</u>	<u>19,180</u>	<u>2,529,431</u>
Fund Balances				
Reserved for:				
Debt service	-	-	110,181	110,181
Capital outlay	-	2,200,938	477,371	2,678,309
Unreserved:				
Undesignated, reported in:				
General fund	1,101,305	-	-	1,101,305
Special revenue funds	-	-	24,998	24,998
Total Fund Balances	<u>1,101,305</u>	<u>2,200,938</u>	<u>612,550</u>	<u>3,914,793</u>
Total Liabilities and Fund Balances	<u>\$ 3,054,929</u>	<u>\$2,757,565</u>	<u>\$ 631,730</u>	<u>\$ 6,444,224</u>

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total governmental fund balances		\$ 3,914,793
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$32,983,411 and accumulated depreciation is \$9,266,398.		
		23,717,013
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	\$(22,535,000)	
Durant non-plaintiff bonds	(202,793)	
State school bond loan	(2,485,151)	
Installment purchase agreements	(293,060)	
Severance pay	(95,150)	
Early retirement incentive	(228,393)	(25,839,547)
		<hr/>
Accrued interest is not included as a liability in governmental funds.		(181,764)
Deferred revenue recognized as revenue in the full accrual statements:		
Property taxes		<hr/> 9,947
		<hr/>
Total net assets - governmental activities		<u><u>\$ 1,620,442</u></u>

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2005

	General	2001 Construction	Nonmajor	Total
Revenues				
Local sources	\$ 654,798	\$ 91,994	\$ 1,696,211	\$ 2,443,003
State sources	9,283,219	-	12,014	9,295,233
Federal sources	648,266	-	164,756	813,022
Interdistrict sources	610,765	-	-	610,765
Total Revenues	11,197,048	91,994	1,872,981	13,162,023
Expenditures				
Current:				
Instruction	6,965,526	-	-	6,965,526
Supporting services	3,498,633	-	-	3,498,633
Community services	184,580	-	-	184,580
Food service	-	-	421,672	421,672
Athletics	-	-	265,272	265,272
Capital outlay	-	7,028,934	14,839	7,043,773
Debt service:				
Principal repayment	133,218	-	715,000	848,218
Interest and fiscal charges	14,665	-	1,105,120	1,119,785
Interdistrict	456,654	-	-	456,654
Total Expenditures	11,253,276	7,028,934	2,521,903	20,804,113
Excess (Deficiency) of Revenues Over Expenditures	(56,228)	(6,936,940)	(648,922)	(7,642,090)
Other Financing Sources (Uses)				
Loan proceeds	59,100	-	567,278	626,378
Transfers in	-	-	228,857	228,857
Transfers out	(228,857)	-	-	(228,857)
Other	(4,972)	-	-	(4,972)
Total Other Financing Sources (Uses)	(174,729)	-	796,135	621,406
Net Change In Fund Balances	(230,957)	(6,936,940)	147,213	(7,020,684)
Fund Balances, Beginning of Year	1,332,262	9,137,878	465,337	10,935,477
Fund Balances, End of Year	\$ 1,101,305	\$ 2,200,938	\$ 612,550	\$ 3,914,793

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2005

Net change in fund balances - total governmental funds \$(7,020,684)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

	Capital outlays	\$ 7,088,034	
	Depreciation expense	<u>(778,243)</u>	6,309,791

Net book value of capital assets disposed of during the year. (27,700)

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (2,031)

Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets. (686,883)

Repayment of long term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities:

Repayment of bonds	715,000	
Repayment of installment purchase agreements	<u>133,959</u>	848,959

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid. 6,228

In the Statement of Net Assets, severance pay and early retirement incentive are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits used/paid (\$146,134) exceeded the amounts earned (\$35,050).

111,084

Total changes in net assets - governmental activities

\$ (461,236)

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 617,460	\$ 675,429	\$ 654,798	\$ (20,631)
State sources	9,542,527	9,291,367	9,283,219	(8,148)
Federal sources	554,219	646,996	648,266	1,270
Interdistrict sources	430,785	615,593	610,765	(4,828)
Total Revenues	<u>11,144,991</u>	<u>11,229,385</u>	<u>11,197,048</u>	<u>(32,337)</u>
Expenditures				
Current:				
Instruction:				
Basic programs	5,572,370	5,793,286	5,723,258	70,028
Added needs	1,488,400	1,292,595	1,242,268	50,327
Supporting services:				
Pupil services	452,605	214,577	221,994	(7,417)
Instructional staff services	130,251	308,411	306,515	1,896
General administrative services	259,070	254,158	247,574	6,584
School administrative services	585,747	558,695	542,217	16,478
Business services	200,245	183,895	183,466	429
Operation and maintenance services	1,055,670	1,165,154	1,143,198	21,956
Pupil transportation services	774,315	747,986	721,315	26,671
Central services	132,675	138,470	132,354	6,116
Community services	149,956	197,962	184,580	13,382
Debt service:				
Principal repayment	130,000	135,045	133,218	1,827
Interest and fiscal charges	19,315	10,140	14,665	(4,525)
Interdistrict	163,040	426,450	456,654	(30,204)
Total Expenditures	<u>11,113,659</u>	<u>11,426,824</u>	<u>11,253,276</u>	<u>173,548</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>(31,332)</u>	<u>(197,439)</u>	<u>(56,228)</u>	<u>141,211</u>
Other Financing Sources (Uses)				
Loan proceeds	116,235	59,100	59,100	-
Transfers out	(297,780)	(240,255)	(228,857)	11,398
Other	-	-	(4,972)	(4,972)
Total Other Financing Sources (Uses)	<u>(181,545)</u>	<u>(181,155)</u>	<u>(174,729)</u>	<u>6,426</u>
Net Change In Fund Balances	<u>(150,213)</u>	<u>(378,594)</u>	<u>(230,957)</u>	<u>147,637</u>
Fund Balances, July 1	<u>1,332,262</u>	<u>1,332,262</u>	<u>1,332,262</u>	<u>-</u>
Fund Balances, June 30	<u>\$ 1,182,049</u>	<u>\$ 953,668</u>	<u>\$ 1,101,305</u>	<u>\$ 147,637</u>

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2005

	Private Purpose Trust Fund	Agency Fund
Assets		
Cash equivalents (Note B)	\$ 6,706	\$ 110,454
Deposits (Note B)	33,388	
Investments (Note B)	4,917	-
	<u>45,011</u>	<u>-</u>
Total Assets	<u><u>\$ 45,011</u></u>	<u><u>\$ 110,454</u></u>
 Liabilities		
Due to student groups	<u>-</u>	<u><u>\$ 110,454</u></u>
 Net Assets		
Held in trust for:		
Individuals and organizations	<u><u>\$ 45,011</u></u>	

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the year ended June 30, 2005

	Private Purpose Trust Fund
Additions	
Donations	\$ 12,149
Interest earnings	431
	<hr/>
Total Additions	12,580
Deductions	
Endowment activities - scholarships	8,154
	<hr/>
Change In Net Assets	4,426
Net Assets, Beginning of Year	40,585
	<hr/>
Net Assets, End of Year	<u><u>\$ 45,011</u></u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Note A – Summary of Significant Accounting Policies

Kent City Community Schools was organized under the School Code of the State of Michigan and services a population of approximately 1,408 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, preschool programs, athletic activities, special education, vocational education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Kent City Community Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-Wide and Fund Financial Statements

District-Wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund and the 2001 Construction Capital Projects Fund are the District's major funds. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Athletic Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designed for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code. For capital project activities funded with sinking fund millage, the District has complied with the applicable provisions of Section 1212 (I) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus. The District presently maintains scholarship funds for the benefit of students.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Kent City Community Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Kent City Community Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$2,500 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and additions	15-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

9. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Early Retirement Incentive

Early retirement incentive at June 30, 2005 has been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. At June 30, 2005, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive amounted to \$228,393.

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

12. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

13. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal obligation repurchase agreements.
- Banker's acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools.

Depositories actively used by the District during the year are detailed as follows:

1. Valley Ridge Bank
2. National City Bank

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Balances at June 30, 2005 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Governmental Funds	\$ 619,230
Fiduciary Funds	<u>150,548</u>
	<u><u>\$ 769,778</u></u>

Cash equivalents consist of bank public funds checking and savings accounts. Deposits consist of certificates of deposit.

June 30, 2005 balances are detailed as follows:

Cash equivalents	\$ 736,390
Deposits	<u>33,388</u>
	<u><u>\$ 769,778</u></u>

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$769,778 and the bank balance was \$988,273. Of the bank balance, \$106,199 was covered by federal depository insurance and \$882,074 was uninsured.

Investments

As of June 30, 2005 the District had the following investments:

	<u>Fair Value</u>
Bank Investment Pool Accounts:	
Fifth Third Bank	\$ 67,227
National City Bank	2,756,000
Michigan Liquid Asset Fund Plus	<u>1,155,939</u>
	<u><u>\$ 3,979,166</u></u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by law.

Credit Risk

The District's investments in the bank and Michigan Liquid Asset Fund investment pools were unrated.

Interest Rate Risk

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Concentration of Credit Risk

The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

Foreign Currency Risk

The District is not authorized to invest in investments which have this type of risk.

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2004 ad valorem State Education Taxes generated within the Kent City Community School District, and paid to the State of Michigan, totaled \$912,766.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2004 and September, 2004. The 2004-05 "Foundation Allowance" for Kent City Community Schools was \$6,700 for 1,406 "Full Time Equivalent" students, generating \$9,322,174 in state aid payments to the District, of which \$1,687,628 was paid to the District in July and August, 2005 and included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund of the District.

Property taxes for the District are levied July 1 by the Townships of Solon, Sparta, Tyrone, Casnovia, Grant and Chester. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Kent, Muskegon, Newaygo and Ottawa, through their Delinquent Tax Revolving Funds, advance all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

Year	General Fund	Debt Service Funds	Building and Site Fund	Total
2004	\$ 1,236	\$ 568	\$ 68	\$ 1,872
2003	3,354	1,594	186	5,134
2002	1,857	967	117	2,941
	<u>\$ 6,447</u>	<u>\$ 3,129</u>	<u>\$ 371</u>	<u>\$ 9,947</u>

Taxes receivable are offset by deferred revenue in the General, Debt Service and Building and Site Funds of the District. Taxes uncollected after three years from the date of levy are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

As Kent City Community Schools' electors had previously (June, 1999) approved an operating millage extension, the 18 mill non-homestead property tax was levied in the District for 2004.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

The District levied 8.25 mills in 2004 for debt service purposes and 1.0 mill for the building and site (sinking) fund, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

Note D – Interfund Receivables/Payables and Transfers

Amounts due from (to) other funds, representing short-term interfund receivables and payables for year end expenditure reimbursements and property tax allocations at June 30, 2005, are detailed as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Special Revenue Funds:		
Athletics Fund	\$ 3,200	\$ —
Debt Service Funds:		
2001 Debt Fund	—	14,556
	<u>3,200</u>	<u>14,556</u>
Special Revenue Funds:		
Athletics Fund:		
General Fund	—	3,200
Debt Service Funds:		
1997 Debt Fund:		
Building and Site Fund	1,420	—
2001 Debt Fund:		
General Fund	14,556	—
Building and Site Fund	6,096	—
	<u>22,072</u>	<u>—</u>
Capital Projects Funds:		
Building and Site Fund:		
1997 Debt Fund	—	1,420
2001 Debt Fund	—	6,096
	<u>—</u>	<u>7,516</u>
Total All Funds	<u><u>\$ 25,272</u></u>	<u><u>\$ 25,272</u></u>

The balance due from the Athletics Fund to the General Fund is for year end athletic expenditures not yet reimbursed at June 30, 2005.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Transfers between funds during the year ended June 30, 2005 were as follows:

	Transfers In	Transfers Out
General Fund:		
Special Revenue Funds:		
Food Service Fund	\$ —	\$ 15,909
Athletics Fund	—	212,948
	<u>—</u>	<u>228,857</u>
Special Revenue Funds:		
Special Revenue Funds:		
General Fund	15,909	—
Athletics Fund:		
General Fund	212,948	—
	<u>228,857</u>	<u>—</u>
Total All Funds	<u><u>\$ 228,857</u></u>	<u><u>\$ 228,857</u></u>

The General Fund transfers were made to support the District food service and athletic programs for the fiscal year.

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balances July 1, 2004	Additions	Deductions	Balances June 30, 2005
Capital assets not depreciated:				
Land	\$ 57,486	\$ —	\$ —	\$ 57,486
Construction in progress	6,696,413	7,028,934	686,312	13,039,035
Capital assets being depreciated:				
Land improvements	1,874,716	40,236		1,914,952
Buildings and additions	14,945,773	594,100	18,500	15,521,373
Furniture and equipment	1,071,401	51,976	12,000	1,111,377
Vehicles	1,376,284	59,100	96,196	1,339,188
	<u>26,022,073</u>	<u>\$7,774,346</u>	<u>\$ 813,008</u>	<u>32,983,411</u>
Totals at historical cost				
	<u>26,022,073</u>	<u>\$7,774,346</u>	<u>\$ 813,008</u>	<u>32,983,411</u>
Less accumulated depreciation for:				
Land improvements	525,129	\$ 122,191	\$ —	647,320
Buildings and additions	7,231,833	468,139	—	7,699,972
Furniture and equipment	125,209	28,675	2,700	151,184
Vehicles	704,980	159,238	96,296	767,922
	<u>8,587,151</u>	<u>\$ 778,243</u>	<u>\$ 98,996</u>	<u>9,266,398</u>
Total accumulated depreciation				
	<u>8,587,151</u>	<u>\$ 778,243</u>	<u>\$ 98,996</u>	<u>9,266,398</u>
Net Capital Assets	<u><u>\$ 17,434,922</u></u>			<u><u>\$ 23,717,013</u></u>

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 326,528
Supporting services	305,392
Community services	28,494
Food service	14,632
Athletics	33,115
Unallocated	<u>70,082</u>
	<u><u>\$ 778,243</u></u>

Note F – Short-term Debt

The \$875,000 August 21, 2003 state aid anticipation loan was repaid on August 21, 2004. On August 20, 2004, the District borrowed \$905,000 in anticipation of state aid (interest at 1.57%), due in full on August 20, 2005. Total interest cost on the loans was \$14,169 for the fiscal year.

Note G – Long-term Debt

Amounts available and to be provided for outstanding long-term debt at June 30, 2005 are summarized as follows:

	General Obligation Bonds	Durant Non-plaintiff Bonds	State School Bond Loan	Installment Purchase Agreements	Severance/ Early Retirement Incentive Pay	Total
Amount Available For Retirement Of Long-Term Debt						
Debt Service Funds	\$ 110,181	\$ —	\$ —	\$ —	\$ —	\$ 110,181
Amounts To Be Provided For Retirement Of Long-Term Debt						
State of Michigan	—	202,793	—	—	—	202,793
General Fund	—	—	—	293,060	323,543	616,603
Debt Service Funds	<u>22,424,819</u>	<u>—</u>	<u>2,485,151</u>	<u>—</u>	<u>—</u>	<u>24,909,970</u>
Total Amounts Available and To Be Provided	<u><u>\$22,535,000</u></u>	<u><u>\$ 202,793</u></u>	<u><u>\$2,485,151</u></u>	<u><u>\$ 293,060</u></u>	<u><u>\$ 323,543</u></u>	<u><u>\$25,839,547</u></u>

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Changes in long-term debt for the year ended June 30, 2005 are summarized as follows:

	Debt Outstanding July 1, 2004	Debt Added	Debt Retired	Debt Outstanding June 30, 2005
General obligation bonds:				
August 1, 1997	\$ 5,500,000	\$ —	\$ 365,000	\$ 5,135,000
November 1, 2001	17,750,000	—	350,000	17,400,000
Durant non-plaintiff bonds:				
November 13, 1998	202,793	—	—	202,793
State school bond loan	1,857,367	627,784	—	2,485,151
Installment purchase agreements	367,919	59,100	133,959	293,060
Severance pay	60,100	35,050	—	95,150
Early retirement incentive	374,527	—	146,134	228,393
	<u>\$ 26,112,706</u>	<u>\$ 721,934</u>	<u>\$ 995,093</u>	<u>\$ 25,839,547</u>

Long-term bonds, notes and installment purchase agreements at June 30, 2005 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
\$7,690M Building and Site August 1, 1997:				
Annual maturities of 365M to 370M	May 1, 2019	4.875 – 5.00	\$ 5,135,000	\$ 365,000
\$18,150M Building and Site November 1, 2001:				
Annual maturities of 350M to 750M	May 1, 2031	4.00 – 5.00	17,400,000	400,000
Durant Non-plaintiff Bonds				
\$900,023 School Improvement Dated November 13, 1998:				
Annual maturities of 15M to 76M	May 15, 2013	4.761353	202,793	15,365
Installment Purchase Agreements				
School Buses:				
\$111,200 September 15, 2000	Aug 22, 2005	5.95	12,643	12,643
\$109,118 September 21, 2001	Sept 21, 2006	5.22	35,745	23,515
\$157,570 July 18, 2002	July 17, 2007	3.875	78,785	31,514
\$55,400 December 18, 2002	Dec 18, 2007	3.55	28,918	11,263
\$116,238 August 18, 2003	Aug 18, 2008	3.29	83,336	22,847
\$59,100 August 19, 2004	Aug 19, 2009	3.44	53,633	11,217
			<u>\$ 23,030,853</u>	<u>\$ 943,364</u>

The District is required to obtain loans from the Michigan School Bond Loan Fund (the “Fund”) for the payment of the annual maturities of its general obligation bonds. There is no fixed maturity schedule for the repayment of these loans. Instead, the principal and interest are payable when taxes levied for debt service are no longer needed to retire bonded debt. During the year, the District borrowed \$567,278 from the Fund and \$60,506 of accrued interest was added to the District’s liability to the Fund. At June 30, 2005, the District owed the Fund a total of \$2,485,151.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

The annual requirements to pay principal and interest on long-term bonds and installment purchase agreements outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2006	\$ 943,364	\$ 1,082,624	\$ 2,025,988
2007	971,714	1,041,706	2,013,420
2008	990,006	1,000,002	1,990,008
2009	957,588	957,081	1,914,669
2010	1,022,208	940,007	1,962,215
2011	959,388	871,211	1,830,599
2012	960,309	827,968	1,788,277
2013	961,276	784,313	1,745,589
2014	990,000	740,612	1,730,612
2015	1,045,000	695,176	1,740,176
2016	1,095,000	646,638	1,741,638
2017	1,095,000	595,150	1,690,150
2018	1,095,000	542,938	1,637,938
2019	1,095,000	490,000	1,585,000
2020	725,000	436,700	1,161,700
2021	725,000	401,900	1,126,900
2022	725,000	367,100	1,092,100
2023	725,000	332,300	1,057,300
2024	725,000	297,500	1,022,500
2025	725,000	261,250	986,250
2026	750,000	225,000	975,000
2027	750,000	187,500	937,500
2028	750,000	150,000	900,000
2029	750,000	112,500	862,500
2030	750,000	75,000	825,000
2031	750,000	37,500	787,500
	<u>\$ 23,030,853</u>	<u>\$ 14,099,676</u>	<u>\$ 37,130,529</u>

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Note H – Retirement Plan

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2005 was \$6,659,308. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 12.99% for the fiscal year ending September 30, 2004 and 14.87% for the fiscal year beginning October 1, 2004. The District's contributions to the plan for the fiscal years ended June 30, 2005, 2004 and 2003 were \$976,856, \$898,238 and \$918,728, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2003 (the latest reporting date available expressed as \$ in millions) for the MPERS as a whole, determined through an actuarial valuation performed as of that date, was \$44,769. The MPERS' net assets available for benefits on that date were \$38,726 leaving an unfunded pension benefit obligation of \$6,043. Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2004 Annual Report of the MPERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

The total actuarial accrued liability (expressed as \$ in millions) increased by \$2,812 from September 30, 2002 to September 30, 2003. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 3 years.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

Note I – Risk Management and Benefits

The District is a member of the West Michigan Risk Management Trust, a self-insurance program with districts pooling together to insure property, liability and auto exposure. Premiums from members of the Trust are determined through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$175,000 and \$650,000, respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained. The District paid \$73,909 in premiums to the Trust for the year ended June 30, 2005.

The District is also a member of the West Michigan Workers' Compensation Fund, a self-insurance program with districts pooling together to insure workers' compensation and employers' liability exposures. The Fund pays the first \$300,000 of any workers' compensation or employers' liability loss out of an \$800,000 loss fund collected from members. Excess insurance has been purchased to cover claims exceeding those amounts. As of June 30, 2005, there were no material pending claims against the District. The District paid \$59,843 in premiums to the Fund for the year ended June 30, 2005.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note J – Commitments

The 2001 Construction Capital Projects fund has construction and equipment purchase commitments of approximately \$2,200,000 which are scheduled for completion in the fall of 2005.

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash	\$ 100	\$ 100
Cash equivalents	21,268	265,111
Investments	1,218,249	1,353,667
Receivables:		
Taxes	6,447	7,730
Accounts	-	63
Due from other funds	3,200	-
Due from other governmental units	1,805,665	1,802,613
Total Assets	<u><u>\$ 3,054,929</u></u>	<u><u>\$ 3,429,284</u></u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 178,064	\$ 363,089
State aid anticipation loan payable	905,000	875,000
Due to other funds	14,556	6,085
Due to other governmental units	249,184	249,797
Payroll withholdings payable	1,087	4,652
Accrued interest payable	15,880	10,723
Salaries payable	583,406	579,946
Deferred revenue	6,447	7,730
Total Liabilities	<u>1,953,624</u>	<u>2,097,022</u>
Fund Balances		
Unreserved:		
Undesignated	<u>1,101,305</u>	<u>1,332,262</u>
Total Liabilities and Fund Balances	<u><u>\$ 3,054,929</u></u>	<u><u>\$ 3,429,284</u></u>

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2005 and 2004

	2005	2004
Local sources:		
Property taxes:		
Current property taxes	\$ 500,150	\$ 476,310
Delinquent property taxes	-	7,795
Other property taxes	24	2,272
Interest on delinquent taxes	1,855	1,568
	<u>502,029</u>	<u>487,945</u>
Interest earnings:		
Interest on deposits and investments	22,368	9,606
Other local revenue:		
Community enrichment fees	43,508	23,589
Preschool/childcare fees	11,616	15,899
Drivers education	17,313	18,125
Transportation fees	3,010	9,201
Pool receipts	7,255	22,030
Sale of school property	3,740	4,783
Rental of school facilities	3,124	120
Donations	-	12,763
Refunds of expenditures	32,631	7,802
Miscellaneous	8,204	6,851
	<u>130,401</u>	<u>121,163</u>
Total local sources	654,798	618,714
State sources:		
State aid	9,282,044	9,451,993
Driver education	-	9,240
School improvement	1,175	1,148
Total state sources	<u>9,283,219</u>	<u>9,462,381</u>
Federal sources:		
Title I	107,802	120,737
Title I - Migrant	193,506	195,179
Title IIA	56,290	56,784
Title IID	3,069	2,936
Title III - Migrant	9,270	6,917
Title V	880	1,777
Summer food program	23,914	23,417
I.D.E.A. program	248,636	233,109
Medicaid - school based	569	1,204
Drug free schools	4,330	2,676
Total federal sources	<u>648,266</u>	<u>644,736</u>
Interdistrict sources:		
Special education - county	561,947	389,390
Durant settlement reimbursements	5,203	3,121
Medicaid reimbursement	7,507	6,496
Career preparation	11,476	16,050
Other	24,632	-
Total interdistrict sources	<u>610,765</u>	<u>415,057</u>
Total Revenues	<u><u>\$ 11,197,048</u></u>	<u><u>\$ 11,140,888</u></u>

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries:		
Teachers	\$ 1,600,056	\$ 2,021,106
Paraprofessionals	56,851	53,383
Substitutes	27,520	27,983
Employee benefits:		
Employee insurance	328,860	367,574
Early retirement incentive	90,314	64,530
Tuition reimbursement	4,350	7,408
Retirement	248,609	273,077
Social Security	131,329	167,711
Workers' compensation insurance	6,850	6,850
Unemployment compensation	9,187	150
Cash in lieu of benefits	26,736	26,952
Workshops and conferences	(128)	-
Equipment repair and maintenance	485	145
Equipment rental	10,758	13,308
Other purchased services	-	260
Teaching supplies	27,459	31,512
Textbooks	14,057	14,518
Miscellaneous	172	280
	<u>2,583,465</u>	<u>3,076,747</u>
Middle school:		
Salaries:		
Teachers	827,818	-
Substitutes	6,053	-
Employee benefits:		
Employee insurance	138,314	-
Early retirement incentive	30,780	-
Retirement	123,243	-
Social Security	63,328	-
Workers' compensation insurance	2,615	-
Cash in lieu of benefits	237	-
Teaching supplies	11,131	-
Textbooks	2,110	-
	<u>1,205,629</u>	<u>-</u>
High school:		
Salaries:		
Teachers	1,160,412	1,694,459
Paraprofessionals	34,399	38,428
Substitutes	23,917	28,058
Employee benefits:		
Employee insurance	276,654	356,971
Early retirement incentive	31,142	8,776
Tuition reimbursement	4,040	7,153
Retirement	178,634	229,089
Social Security	93,465	136,405
Workers' compensation insurance	3,615	6,110
Unemployment compensation	3,620	-
Cash in lieu of benefits	13,654	12,983

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
High school: (Continued)		
Instructional services	\$ -	\$ 1,000
Local travel	153	181
Workshops and conferences	1,141	175
Dual enrollment tuition	5,181	7,578
Equipment repair and maintenance	2,264	1,951
Equipment rental	8,090	9,309
Other purchased services	4,595	5,450
Teaching supplies	27,584	37,911
Textbooks	1,744	9,062
Dues and fees	2,686	3,678
Miscellaneous	311	333
	<u>1,877,301</u>	<u>2,595,060</u>
Preschool:		
Salaries:		
Teachers	15,237	15,828
Paraprofessionals	9,477	6,988
Substitutes	150	-
Employee benefits:		
Retirement	3,692	2,964
Social Security	1,902	1,745
Local travel	146	43
Workshops and conferences	400	-
Teaching supplies	6,947	1,075
	<u>37,951</u>	<u>28,643</u>
Driver education:		
Teachers salaries	15,460	12,060
Employee benefits:		
Retirement	2,269	1,567
Social Security	1,183	923
Teaching supplies	-	200
	<u>18,912</u>	<u>14,750</u>
Total basic programs	<u>5,723,258</u>	<u>5,715,200</u>
Added needs:		
Special education:		
Salaries:		
Teachers	557,406	530,007
Teaching assistants	35,930	38,521
Substitutes	4,156	9,479
Employee benefits:		
Employee insurance	129,902	127,674
Tuition reimbursement	2,657	341
Retirement	85,437	70,768
Social Security	46,392	45,342
Workers' compensation insurance	7,940	4,685
Cash in lieu of benefits	13,411	11,733
Workshops and conferences	40	-
Contracted services	3,596	14,961
Teaching supplies	1,811	1,611
Textbooks	716	2,058
	<u>889,394</u>	<u>857,180</u>

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Compensatory education:		
Salaries:		
Teachers	\$ 192,563	\$ 230,016
Paraprofessionals	49,996	30,474
Substitutes	637	-
Employee benefits:		
Employee insurance	36,976	50,198
Retirement	39,130	36,790
Social Security	22,083	21,969
Workers' compensation insurance	175	1,085
Unemployment compensation	2,652	-
Cash in lieu of benefits	-	1,293
Local travel	315	4,425
Workshops and conferences	508	1,415
Medical services	340	32
Teaching supplies	4,972	5,186
Dues and fees	2,392	1,952
Miscellaneous	135	330
	<u>352,874</u>	<u>385,165</u>
Total added needs	1,242,268	1,242,345
Supporting services:		
Pupil services:		
Guidance services:		
Salaries:		
Counselors	138,122	127,558
Clerical	822	13,437
Employee benefits:		
Employee insurance	28,469	27,214
Retirement	20,330	18,299
Social Security	10,629	10,802
Workers' compensation insurance	670	610
Testing services	6,957	5,768
Local travel	-	144
Other supplies	-	32
	<u>205,999</u>	<u>203,864</u>
Health services:		
Nursing salaries	3,326	3,028
Employee benefits:		
Retirement	209	274
Social Security	108	161
	<u>3,643</u>	<u>3,463</u>
School psychologist services:		
Psychologists salaries	-	45,100
Employee benefits:		
Employee insurance	1,067	6,007
Tuition reimbursement	1,452	-
Retirement	-	5,859
Social Security	-	3,450
Workers' compensation insurance	-	205
Contracted services	-	550

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
School psychologist services: (Continued)		
Workshops and conferences	\$ 85	\$ 95
Teaching supplies	1,379	1,627
	<u>3,983</u>	<u>62,893</u>
Speech pathology services:		
Speech pathologists salaries	-	63,580
Employee benefits:		
Employee insurance	2,066	12,490
Tuition reimbursement	530	-
Retirement	-	8,259
Social Security	-	4,864
Workers' compensation insurance	-	275
Contracted services	-	20,000
Workshops and conferences	20	-
Supplies	436	568
	<u>3,052</u>	<u>110,036</u>
Social worker services:		
Social workers salaries	2,660	46,775
Employee benefits:		
Employee insurance	1,068	1,273
Retirement	396	6,076
Social Security	203	3,932
Workers' compensation insurance	-	170
Cash in lieu of benefits	-	4,620
Local travel	182	181
Workshops and conferences	-	100
Supplies	808	1,037
	<u>5,317</u>	<u>64,164</u>
Total pupil services	221,994	444,420
Instructional staff services:		
Improvement of instruction:		
Teacher mentor	1,338	1,263
Educational media services:		
Salaries:		
Librarians	64,056	61,136
Paraprofessionals	24,202	18,719
Employee benefits:		
Employee insurance	22,101	19,208
Retirement	13,015	10,373
Social Security	6,640	6,077
Workers' compensation insurance	395	380
Workshops and conferences	-	150
Equipment repair and maintenance	957	2,333
Library books	8,660	3,527
Periodicals	1,307	2,141
Supplies	9,691	7,281
	<u>151,024</u>	<u>131,325</u>
Special education supervision:		
Salaries:		
Director	73,196	72,114
Clerical	26,690	25,828

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Special education supervision: (Continued)		
Employee benefits:		
Employee insurance	\$ 29,112	\$ 24,280
Retirement	14,476	11,954
Social Security	7,641	7,040
Workers' compensation insurance	255	-
Travel and expense	635	666
Workshops and conferences	280	-
Equipment repair and maintenance	738	714
Office supplies	839	649
Dues and fees	241	130
Miscellaneous	50	-
	<u>154,153</u>	<u>143,375</u>
Total instructional staff services	306,515	275,963
General administrative services:		
Board of education:		
Clerical salaries	1,000	1,000
Employee benefits:		
Retirement	149	130
Social Security	535	77
Management services	3,295	12,000
Legal services	7,470	8,989
Audit services	21,175	23,900
Other professional services	1,185	4,526
Workshops and conferences	480	766
Advertising	1,652	2,044
Printing and binding	16,702	8,765
Other purchased services	1,700	1,561
Office supplies	155	109
Dues and fees	3,002	3,476
Miscellaneous	7,125	6,697
	<u>65,625</u>	<u>74,040</u>
Executive administration:		
Salaries:		
Superintendent	83,775	98,889
Clerical	36,946	36,506
Employee benefits:		
Employee insurance	7,435	20,613
Tuition reimbursement	3,930	-
Board paid annuities	-	8,180
Retirement	17,635	18,237
Social Security	9,235	10,001
Workers' compensation insurance	460	430
Cash in lieu of benefits	6,000	-
Local travel	-	966
Workshops and conferences	-	90
Mailing and postage	8,089	10,150
Equipment repair and maintenance	297	384
Equipment rental	4,425	3,936
Office supplies	1,659	1,967

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Executive administration: (Continued)		
Dues and fees	\$ 1,263	\$ 1,244
Miscellaneous	800	1,659
	<u>181,949</u>	<u>213,252</u>
Total general administrative services	247,574	287,292
School administrative services:		
Office of the principal:		
Salaries:		
Director	1,820	-
Principals	228,244	281,560
Clerical	130,774	105,819
Recruiters and aides	424	-
Employee benefits:		
Employee insurance	86,953	80,450
Tuition reimbursement	828	-
Retirement	49,359	47,943
Social Security	26,711	28,839
Workers' compensation insurance	2,520	2,300
Cash in lieu of benefits	6,000	6,514
Workshops and conferences	655	-
Equipment repair and maintenance	350	135
Other purchased services	2,394	2,015
Office supplies	1,682	1,902
Graduation/awards	1,451	1,733
Dues and fees	2,052	1,700
Total school administrative services	<u>542,217</u>	<u>560,910</u>
Business services:		
Fiscal services:		
Salaries:		
Business manager	61,623	57,091
Accounting	28,759	25,606
Employee benefits:		
Employee insurance	22,661	20,968
Retirement	13,137	10,107
Social Security	6,876	6,314
Workers' compensation insurance	315	310
Data processing services	3,625	3,968
Local travel	87	76
Workshops and conferences	85	215
Office supplies	1,211	2,169
Dues and fees	188	158
Miscellaneous	1,081	1,166
	<u>139,648</u>	<u>128,148</u>
Other business services:		
Summer tax collection fees	4,664	4,528
Interest expense	14,169	10,723
Paying agent fees	3,719	3,451

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Other business services: (Continued)		
Tax refunds	\$ 20,088	\$ 14,037
Property taxes	1,178	1,095
	<u>43,818</u>	<u>33,834</u>
Total business services	183,466	161,982
Operation and maintenance services:		
Operation and maintenance:		
Custodial salaries	394,023	367,722
Employee benefits:		
Employee insurance	130,933	122,075
Retirement	56,672	47,117
Social Security	29,898	27,760
Workers' compensation insurance	17,510	20,070
Unemployment compensation	3,287	400
Local travel	86	110
Workshops and conferences	69	-
Telephone	20,293	20,113
Water and sewer	48,493	50,536
Waste and trash disposal	11,177	10,990
Property and liability insurance	46,400	51,587
Building repair and maintenance	30,774	27,172
Grounds maintenance	8,511	8,026
Equipment repair and maintenance	5,046	4,255
Vehicle repair and maintenance	2,668	-
Heating	118,926	116,642
Electricity	162,409	131,522
Maintenance supplies	50,820	37,731
Uniforms	2,536	2,803
New equipment and furniture	-	2,800
Miscellaneous	2,667	3,467
Total operation and maintenance services	1,143,198	1,052,898
Pupil transportation services:		
Pupil transportation:		
Salaries:		
Supervisor	39,946	38,878
Drivers	248,300	274,583
Mechanics	45,296	44,627
Employee benefits:		
Employee insurance	106,755	98,764
Employee physicals	1,818	1,031
Retirement	46,841	43,279
Social Security	23,296	25,697
Workers' compensation insurance	17,243	15,623
Cash in lieu of benefits	4,400	900
Contracted services	4,829	-
Workshops and conferences	787	308
Vehicle insurance	27,509	21,026
Equipment repair and maintenance	862	1,284
Vehicle repair and maintenance	17,683	14,584
Vehicle rental	6,330	5,161

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Pupil transportation: (Continued)		
Other purchased services	\$ 139	\$ -
Gasoline, oil and grease	60,625	50,241
Tires, tubes and batteries	3,121	3,583
Garage supplies	3,452	2,888
Replacement equipment and furniture	-	246
Replacement buses	59,199	117,694
Miscellaneous	2,884	4,014
Total pupil transportation services	721,315	764,411
Central services:		
Technology support:		
Coordinator salary	60,266	59,375
Employee benefits:		
Employee insurance	13,649	12,886
Retirement	8,704	7,713
Social Security	4,610	4,542
Workers' compensation insurance	215	-
Staff training	380	821
Technical support	16,423	13,315
Internet service provider	8,441	8,745
Equipment repair and maintenance	5,038	7,774
Computer and printer supplies	14,628	8,729
Total central services	132,354	123,900
Community services:		
Community pool:		
Salaries:		
Aquatics director	1,058	5,453
Teachers	6,064	6,317
Lifeguard	7,090	26,058
Clerical	56,059	51,662
Paraprofessionals	1,908	2,063
Employee benefits:		
Employee insurance	21,182	18,875
Retirement	7,482	7,127
Social Security	4,637	6,230
Workers' compensation insurance	1,560	-
Unemployment compensation	-	2,832
Travel and expense	73	82
Advertising	183	79
Equipment repair and maintenance	1,308	1,297
Office supplies	504	343
Supplies	8,218	10,679
New equipment and furniture	4,318	-
Dues and fees	-	130
	121,644	139,227
Great Start:		
Salaries:		
Teachers	9,803	-
Paraprofessionals	4,780	-
Substitutes	375	-

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Great Start: (Continued)		
Employee benefits:		
Retirement	\$ 2,205	\$ -
Social Security	1,144	-
Teaching supplies	275	-
	<u>18,582</u>	<u>-</u>
Summer food program - migrant:		
Food service salaries	6,307	7,183
Employee benefits:		
Retirement	529	632
Social Security	482	550
Supplies	1,363	2,381
Food	13,739	14,481
	<u>22,420</u>	<u>25,227</u>
Other community services:		
Travel and expense	4,200	4,200
Contracted services	17,734	14,183
	<u>21,934</u>	<u>18,383</u>
Total community services	184,580	182,837
Debt service:		
Principal repayment	133,218	130,417
Interest and fiscal charges:		
Interest expense	14,665	18,097
Total debt service	<u>147,883</u>	<u>148,514</u>
Interdistrict:		
Special education tuition	175,247	186,584
Itinerant services	281,270	-
Other	137	1,921
Total interdistrict	<u>456,654</u>	<u>188,505</u>
Total Expenditures	<u><u>\$ 11,253,276</u></u>	<u><u>\$ 11,149,177</u></u>

NONMAJOR FUNDS

KENT CITY COMMUNITY SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2005

	Special Revenue		Debt Service	
	Food Service	Athletics	1997	2001
Assets				
Cash	\$ -	\$ 350	\$ -	\$ -
Cash equivalents	9,584	13,568	45,944	42,387
Taxes receivable	-	-	1,701	1,428
Due from other funds	-	-	1,420	20,652
Due from other governmental units	3,500	-	1,463	1,446
Inventory	2,649	-	-	-
Total Assets	<u>\$ 15,733</u>	<u>\$ 13,918</u>	<u>\$ 50,528</u>	<u>\$ 65,913</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,188	\$ 265	\$ -	\$ -
Due to other funds	-	3,200	-	-
Due to other governmental units	-	-	1,575	1,556
Deferred revenue	-	-	1,701	1,428
Total Liabilities	<u>1,188</u>	<u>3,465</u>	<u>3,276</u>	<u>2,984</u>
Fund balances				
Reserved for debt service	-	-	47,252	62,929
Reserved for capital outlay	-	-	-	-
Unreserved:				
Undesignated	14,545	10,453	-	-
Total Fund Balances	<u>14,545</u>	<u>10,453</u>	<u>47,252</u>	<u>62,929</u>
Total Liabilities and Fund Balances	<u>\$ 15,733</u>	<u>\$ 13,918</u>	<u>\$ 50,528</u>	<u>\$ 65,913</u>

Capital Projects	
Building and Site	Total
\$ -	\$ 350
484,914	596,397
371	3,500
-	22,072
353	6,762
-	2,649
<u>\$ 485,638</u>	<u>\$ 631,730</u>

\$ -	\$ 1,453
7,516	10,716
380	3,511
371	3,500
<u>8,267</u>	<u>19,180</u>

-	110,181
477,371	477,371
-	24,998
<u>477,371</u>	<u>612,550</u>
<u>\$ 485,638</u>	<u>\$ 631,730</u>

KENT CITY COMMUNITY SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2005

	Special Revenue		Debt Service	
	Food Service	Athletics	1997	2001
Revenues				
Local sources:				
Property taxes	\$ -	\$ -	\$ 634,045	\$ 626,516
Interest earnings	83	55	1,723	1,153
Sales and admissions	223,401	52,366	-	-
	<u>223,484</u>	<u>52,421</u>	<u>635,768</u>	<u>627,669</u>
Total local sources	223,484	52,421	635,768	627,669
State sources	12,014	-	-	-
Federal sources	164,756	-	-	-
	<u>400,254</u>	<u>52,421</u>	<u>635,768</u>	<u>627,669</u>
Total Revenues	<u>400,254</u>	<u>52,421</u>	<u>635,768</u>	<u>627,669</u>
Expenditures				
Current:				
Food service	421,672	-	-	-
Athletics	-	265,272	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal repayment	-	-	365,000	350,000
Interest and fiscal charges	-	-	275,790	829,330
	<u>421,672</u>	<u>265,272</u>	<u>640,790</u>	<u>1,179,330</u>
Total Expenditures	<u>421,672</u>	<u>265,272</u>	<u>640,790</u>	<u>1,179,330</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(21,418)</u>	<u>(212,851)</u>	<u>(5,022)</u>	<u>(551,661)</u>
Other Financing Sources				
Loan proceeds	-	-	-	567,278
Transfers in	15,909	212,948	-	-
	<u>15,909</u>	<u>212,948</u>	<u>-</u>	<u>567,278</u>
Total Other Financing Sources	<u>15,909</u>	<u>212,948</u>	<u>-</u>	<u>567,278</u>
Net Change In Fund Balances	<u>(5,509)</u>	<u>97</u>	<u>(5,022)</u>	<u>15,617</u>
Fund Balances, July 1	<u>20,054</u>	<u>10,356</u>	<u>52,274</u>	<u>47,312</u>
Fund Balances, June 30	<u>\$ 14,545</u>	<u>\$ 10,453</u>	<u>\$ 47,252</u>	<u>\$ 62,929</u>

Capital Projects	
Building and Site	Total
\$ 152,789	\$ 1,413,350
4,080	7,094
-	275,767
156,869	1,696,211
-	12,014
-	164,756
156,869	1,872,981
-	421,672
-	265,272
14,839	14,839
-	715,000
-	1,105,120
14,839	2,521,903
142,030	(648,922)
-	567,278
-	228,857
-	796,135
142,030	147,213
335,341	465,337
\$ 477,371	\$ 612,550

KENT CITY COMMUNITY SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2005

	2005			2004
	Budget	Actual	Variance - Positive (Negative)	Actual
Revenues				
Local sources:				
Interest earnings	\$ 70	\$ 83	\$ 13	\$ 70
Sales and admissions	239,800	223,401	(16,399)	236,445
Total local sources	239,870	223,484	(16,386)	236,515
State sources	14,815	12,014	(2,801)	24,798
Federal sources	140,000	164,756	24,756	156,885
Total Revenues	394,685	400,254	5,569	418,198
Expenditures				
Current:				
Food service	423,435	421,672	1,763	404,627
Excess (Deficiency) of Revenues Over Expenditures	(28,750)	(21,418)	7,332	13,571
Other Financing Sources				
Transfers in	16,000	15,909	(91)	
Net Change In Fund Balances	(12,750)	(5,509)	7,241	13,571
Fund Balances, July 1	20,054	20,054	-	6,483
Fund Balances, June 30	\$ 7,304	\$ 14,545	\$ 7,241	\$ 20,054

KENT CITY COMMUNITY SCHOOLS
Athletics Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2005

	2005			2004
	Budget	Actual	Variance - Positive (Negative)	Actual
Revenues				
Local sources:				
Interest earnings	\$ 60	\$ 55	\$ (5)	\$ 279
Sales and admissions	51,970	52,366	396	65,446
Total Revenues	52,030	52,421	391	65,725
Expenditures				
Current:				
Athletics	276,285	265,272	11,013	301,432
Excess (Deficiency) of Revenues Over Expenditures	(224,255)	(212,851)	11,404	(235,707)
Other Financing Sources				
Transfers in	224,255	212,948	(11,307)	235,707
Net Change In Fund Balances	-	97	97	-
Fund Balances, July 1	10,356	10,356	-	10,356
Fund Balances, June 30	\$ 10,356	\$ 10,453	\$ 97	\$ 10,356

SPECIAL REVENUE FUNDS

Food Service—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

Athletics—to account for activity receipts and General Fund contributions used in administering the athletic program of the District.

KENT CITY COMMUNITY SCHOOLS
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash equivalents	\$ 9,584	\$ 14,783
Due from other governmental units	3,500	3,844
Inventory	<u>2,649</u>	<u>2,544</u>
Total Assets	<u><u>\$ 15,733</u></u>	<u><u>\$ 21,171</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	<u>\$ 1,188</u>	<u>\$ 1,117</u>
Fund Balances		
Unreserved:		
Undesignated	<u>14,545</u>	<u>20,054</u>
Total Liabilities and Fund Balances	<u><u>\$ 15,733</u></u>	<u><u>\$ 21,171</u></u>

KENT CITY COMMUNITY SCHOOLS
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2005 and 2004

	2005	2004
Revenues		
Local sources:		
Sales and admissions:		
Children's lunches	\$ 117,849	\$ 113,121
Adult lunches	5,918	51,807
Ala carte	99,425	70,006
Dinners and banquets	-	1,311
Other	209	200
	<u>223,401</u>	<u>236,445</u>
Interest earnings:		
Interest on deposits	83	70
Total local sources	<u>223,484</u>	<u>236,515</u>
State sources	12,014	24,798
Federal sources	<u>164,756</u>	<u>156,885</u>
Total Revenues	<u>400,254</u>	<u>418,198</u>
Expenditures		
Current:		
Food service:		
Food service salaries	129,727	127,992
Employee benefits:		
Employee insurance	19,589	8,519
Retirement	19,025	16,569
Social Security	9,433	9,896
Workers' compensation insurance	3,390	3,390
Cash in lieu of benefits	1,900	4,600
Local travel	85	408
Workshops and conferences	-	10
Equipment repair and maintenance	4,948	2,094
Non-edible supplies	16,889	16,504
Food	214,721	213,389
Uniforms	1,053	1,060
Other supplies	-	67
New equipment and furniture	387	-
Miscellaneous	<u>525</u>	<u>129</u>
Total Expenditures	<u>421,672</u>	<u>404,627</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(21,418)</u>	<u>13,571</u>
Other Financing Sources		
Transfers in	<u>15,909</u>	<u>-</u>
Net Change In Fund Balances	<u>(5,509)</u>	<u>13,571</u>
Fund Balances, July 1	<u>20,054</u>	<u>6,483</u>
Fund Balances, June 30	<u><u>\$ 14,545</u></u>	<u><u>\$ 20,054</u></u>

KENT CITY COMMUNITY SCHOOLS
Athletics Special Revenue Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash	\$ 350	\$ 350
Cash equivalents	13,568	6,337
Due from other funds	<u>-</u>	<u>6,085</u>
Total Assets	<u><u>\$ 13,918</u></u>	<u><u>\$ 12,772</u></u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 265	\$ 2,416
Due to other funds	<u>3,200</u>	<u>-</u>
Total Liabilities	<u>3,465</u>	<u>2,416</u>
Fund Balances		
Unreserved:		
Undesignated	<u>10,453</u>	<u>10,356</u>
Total Liabilities and Fund Balances	<u><u>\$ 13,918</u></u>	<u><u>\$ 12,772</u></u>

KENT CITY COMMUNITY SCHOOLS
Athletics Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues		
Local sources:		
Sales and admissions:		
Athletic admissions	\$ 34,490	\$ 63,848
Tournament fees	17,876	1,510
Miscellaneous	-	88
	<u>52,366</u>	<u>65,446</u>
Interest earnings:		
Interest on deposits	<u>55</u>	<u>279</u>
Total Revenues	<u>52,421</u>	<u>65,725</u>
Expenditures		
Current:		
Athletics:		
Salaries:		
Director	54,620	53,813
Coaches	121,693	120,438
Clerical	732	13,277
Employee benefits:		
Retirement	25,185	23,824
Social Security	14,003	14,610
Cash in lieu of benefits	6,000	3,600
Contracted services	-	454
Officials and game workers	18,774	23,384
Local travel	3,355	4,249
Workshops and conferences	75	450
Athletic insurance	1,068	1,015
Equipment repair and maintenance	-	129
Uniforms	4,592	3,601
First aid supplies	-	455
Office supplies	166	281
Other supplies and materials	5,153	4,326
Awards and trophies	808	4,007
Dues and fees	1,307	1,361
Tournament entry fees	7,011	26,764
Miscellaneous	<u>730</u>	<u>1,394</u>
Total Expenditures	<u>265,272</u>	<u>301,432</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(212,851)</u>	<u>(235,707)</u>
Other Financing Sources		
Transfers in	<u>212,948</u>	<u>235,707</u>
Net Change In Fund Balances	97	-
Fund Balances, July 1	<u>10,356</u>	<u>10,356</u>
Fund Balances, June 30	<u><u>\$ 10,453</u></u>	<u><u>\$ 10,356</u></u>

DEBT SERVICE FUNDS

To accumulate property tax revenues and interest earnings for repayment of the bond issues of the District used to finance new building construction projects.

KENT CITY COMMUNITY SCHOOLS
Debt Service Funds
Combining Balance Sheet
June 30, 2005

	1997	2001	Totals	
			2005	2004
Assets				
Cash equivalents	\$ 45,944	\$ 42,387	\$ 88,331	\$ 99,782
Taxes receivable	1,701	1,428	3,129	3,802
Due from other funds	1,420	20,652	22,072	-
Due from other governmental units	1,463	1,446	2,909	-
Total Assets	<u>\$ 50,528</u>	<u>\$ 65,913</u>	<u>\$ 116,441</u>	<u>\$ 103,584</u>
Liabilities and Fund Balances				
Liabilities				
Due to other governmental units	\$ 1,575	\$ 1,556	\$ 3,131	\$ 196
Deferred revenue	1,701	1,428	3,129	3,802
Total Liabilities	<u>3,276</u>	<u>2,984</u>	<u>6,260</u>	<u>3,998</u>
Fund balances				
Reserved for debt service	<u>47,252</u>	<u>62,929</u>	<u>110,181</u>	<u>99,586</u>
Total Liabilities and Fund Balances	<u>\$ 50,528</u>	<u>\$ 65,913</u>	<u>\$ 116,441</u>	<u>\$ 103,584</u>

KENT CITY COMMUNITY SCHOOLS
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2005

	1997	2001	Totals	
			2005	2004
Revenues				
Local sources:				
Property taxes:				
Current property taxes	\$ 630,963	\$ 623,507	\$ 1,254,470	\$ 1,181,007
Industrial facilities taxes	1,463	1,446	2,909	779
Delinquent taxes	-	-	-	3,663
Interest on delinquent taxes	1,619	1,563	3,182	3,094
	<u>634,045</u>	<u>626,516</u>	<u>1,260,561</u>	<u>1,188,543</u>
Interest earnings:				
Interest on deposits	1,723	1,153	2,876	2,928
	<u>1,723</u>	<u>1,153</u>	<u>2,876</u>	<u>2,928</u>
Total Revenues	<u>635,768</u>	<u>627,669</u>	<u>1,263,437</u>	<u>1,191,471</u>
Expenditures				
Debt service:				
Principal repayment	365,000	350,000	715,000	615,000
Interest and fiscal charges:				
Interest expense	271,898	825,675	1,097,573	1,125,366
Paying agent fees	215	217	432	550
Tax refunds	3,677	3,438	7,115	196
Total interest and fiscal charges	<u>275,790</u>	<u>829,330</u>	<u>1,105,120</u>	<u>1,126,112</u>
Total Expenditures	<u>640,790</u>	<u>1,179,330</u>	<u>1,820,120</u>	<u>1,741,112</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,022)</u>	<u>(551,661)</u>	<u>(556,683)</u>	<u>(549,641)</u>
Other Financing Sources				
Loan proceeds	-	567,278	567,278	518,237
	<u>-</u>	<u>567,278</u>	<u>567,278</u>	<u>518,237</u>
Net Change In Fund Balances	<u>(5,022)</u>	<u>15,617</u>	<u>10,595</u>	<u>(31,404)</u>
Fund Balances, July 1	<u>52,274</u>	<u>47,312</u>	<u>99,586</u>	<u>130,990</u>
Fund Balances, June 30	<u>\$ 47,252</u>	<u>\$ 62,929</u>	<u>\$ 110,181</u>	<u>\$ 99,586</u>

CAPITAL PROJECTS FUNDS

Building and Site—to account for property tax revenues and interest earnings used to finance building restoration projects.

2001 Construction—to account for bond proceeds used to finance building construction and renovation projects.

KENT CITY COMMUNITY SCHOOLS
Building and Site Capital Projects Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash equivalents	\$ 484,914	\$ 335,364
Taxes receivable	371	446
Due from other governmental units	<u>353</u>	<u>-</u>
Total Assets	<u><u>\$ 485,638</u></u>	<u><u>\$ 335,810</u></u>
 Liabilities and Fund Balances		
Liabilities		
Due to other funds	\$ 7,516	\$ -
Due to other governmental units	380	23
Deferred revenue	<u>371</u>	<u>446</u>
Total Liabilities	<u>8,267</u>	<u>469</u>
Fund Balances		
Reserved for capital outlay	<u>477,371</u>	<u>335,341</u>
Total Liabilities and Fund Balances	<u><u>\$ 485,638</u></u>	<u><u>\$ 335,810</u></u>

KENT CITY COMMUNITY SCHOOLS
Building and Site Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues		
Local sources:		
Property taxes:		
Current property taxes	\$ 152,046	\$ 138,112
Industrial facilities taxes	353	91
Delinquent property taxes	-	434
Interest on delinquent taxes	<u>390</u>	<u>362</u>
	152,789	138,999
Interest earnings:		
Interest on deposits	<u>4,080</u>	<u>2,938</u>
Total Revenues	<u>156,869</u>	<u>141,937</u>
Expenditures		
Capital outlay:		
Building improvements	13,995	-
Tax refunds	<u>844</u>	<u>23</u>
Total Expenditures	<u>14,839</u>	<u>23</u>
Net Change In Fund Balances	142,030	141,914
Fund Balances, July 1	<u>335,341</u>	<u>193,427</u>
Fund Balances, June 30	<u><u>\$ 477,371</u></u>	<u><u>\$ 335,341</u></u>

KENT CITY COMMUNITY SCHOOLS
2001 Construction Capital Projects Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash equivalents	\$ 1,565	\$ 24,783
Investments	<u>2,756,000</u>	<u>9,747,880</u>
Total Assets	<u><u>\$ 2,757,565</u></u>	<u><u>\$ 9,772,663</u></u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	<u>\$ 556,627</u>	<u>\$ 634,785</u>
Fund Balances		
Reserved for capital outlay	<u>2,200,938</u>	<u>9,137,878</u>
Total Liabilities and Fund Balances	<u><u>\$ 2,757,565</u></u>	<u><u>\$ 9,772,663</u></u>

KENT CITY COMMUNITY SCHOOLS
2001 Construction Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues		
Interest earnings:		
Interest on investments	\$ 91,994	\$ 287,696
Expenditures		
Capital outlay:		
Architectural fees	161,157	386,275
Other professional fees	-	29,378
Building improvements	6,361,684	6,139,916
New equipment and furniture - depreciable	236,616	25,739
New equipment and furniture - non-depreciable	248,691	12,102
Fees and permits	20,786	-
Total Expenditures	<u>7,028,934</u>	<u>6,593,410</u>
Excess (Deficiency) of Revenues Over Expenditures	(6,936,940)	(6,305,714)
Fund Balances, July 1	<u>9,137,878</u>	<u>15,443,592</u>
Fund Balances, June 30	<u><u>\$ 2,200,938</u></u>	<u><u>\$ 9,137,878</u></u>

AGENCY FUND

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

KENT CITY COMMUNITY SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2005

	<u>Balances</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2005</u>
Assets				
Cash equivalents	<u>\$ 109,269</u>	<u>\$ 262,971</u>	<u>\$ 261,786</u>	<u>\$ 110,454</u>
Liabilities				
Due to student groups	<u>\$ 109,269</u>	<u>\$ 262,971</u>	<u>\$ 261,786</u>	<u>\$ 110,454</u>

OTHER INFORMATION

KENT CITY COMMUNITY SCHOOLS
Summary of 2004 Taxes Levied and Collected
For the year ended June 30, 2005

	Kent County			Muskegon County	Newaygo County	Ottawa County	
	Solon	Sparta	Tyrone	Casnovia	Grant	Chester	Total
Taxable Valuations							
Operating	\$3,481,722	\$ 952,110	\$19,150,993	\$3,707,922	\$ 2,758	\$ 559,463	\$27,854,968
Debt Service/Building and Site	22,537,220	6,289,597	93,157,960	25,212,833	212,779	4,717,328	152,127,717
Rates (Mills)							
General Fund							18.0000
1997 Debt Service Fund							4.1500
2001 Debt Service Fund							4.1000
Building and Site Fund							1.0000
							<u>27.2500</u>
Taxes Levied 2004 Rolls							
General Fund	\$ 62,670	\$ 7,137	\$ 344,716	\$ 66,743	\$ 50	\$ 10,070	\$ 491,386
1997 Debt Service Fund	93,517	26,099	386,555	104,622	882	19,574	631,249
2001 Debt Service Fund	92,412	25,790	381,988	103,386	871	19,342	623,789
Building and Site Fund	22,535	6,289	93,149	25,211	213	4,717	152,114
	<u>271,134</u>	<u>65,315</u>	<u>1,206,408</u>	<u>299,962</u>	<u>2,016</u>	<u>53,703</u>	<u>1,898,538</u>
Taxes Uncollected 2004 Rolls							
General Fund	475	-	761	-	-	-	1,236
1997 Debt Service Fund	110	-	176	-	-	-	286
2001 Debt Service Fund	108	-	174	-	-	-	282
Building and Site Fund	26	-	42	-	-	-	68
	<u>719</u>	<u>-</u>	<u>1,153</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,872</u>
Taxes Collected 2004 Rolls							
General Fund	62,195	7,137	343,955	66,743	50	10,070	490,150
1997 Debt Service Fund	93,407	26,099	386,379	104,622	882	19,574	630,963
2001 Debt Service Fund	92,304	25,790	381,814	103,386	871	19,342	623,507
Building and Site Fund	22,509	6,289	93,107	25,211	213	4,717	152,046
	<u>270,415</u>	<u>65,315</u>	<u>1,205,255</u>	<u>299,962</u>	<u>2,016</u>	<u>53,703</u>	<u>1,896,666</u>
Delinquent Taxes Collected							
General Fund	-	-	-	-	-	-	-
1997 Debt Service Fund	-	-	-	-	-	-	-
2001 Debt Service Fund	-	-	-	-	-	-	-
Building and Site Fund	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Taxes Collected							
General Fund	62,195	7,137	343,955	66,743	50	10,070	490,150
1997 Debt Service Fund	93,407	26,099	386,379	104,622	882	19,574	630,963
2001 Debt Service Fund	92,304	25,790	381,814	103,386	871	19,342	623,507
Building and Site Fund	22,509	6,289	93,107	25,211	213	4,717	152,046
	<u>\$ 270,415</u>	<u>\$ 65,315</u>	<u>\$ 1,205,255</u>	<u>\$ 299,962</u>	<u>\$ 2,016</u>	<u>\$ 53,703</u>	<u>\$ 1,896,666</u>

(Continued)

KENT CITY COMMUNITY SCHOOLS
Summary of 2004 Taxes Levied and Collected
For the year ended June 30, 2005

	Kent County			Muskegon County	Newaygo County	Ottawa County	
	Solon	Sparta	Tyrone	Casnovia	Grant	Chester	Total
Taxes Uncollected – June 30, 2005							
General Fund:							
2004	\$ 475	\$ -	\$ 761	\$ -	\$ -	\$ -	\$ 1,236
2003	436	-	2,742	176	-	-	3,354
2002	83	1,246	528	-	-	-	1,857
	<u>994</u>	<u>1,246</u>	<u>4,031</u>	<u>176</u>	<u>-</u>	<u>-</u>	<u>6,447</u>
1997 Debt Service Fund:							
2004	110	-	176	-	-	-	286
2003	107	-	647	73	-	-	827
2002	5	357	226	-	-	-	588
	<u>222</u>	<u>357</u>	<u>1,049</u>	<u>73</u>	<u>-</u>	<u>-</u>	<u>1,701</u>
2001 Debt Service Fund:							
2004	108	-	174	-	-	-	282
2003	97	-	608	62	-	-	767
2002	-	232	147	-	-	-	379
	<u>205</u>	<u>232</u>	<u>929</u>	<u>62</u>	<u>-</u>	<u>-</u>	<u>1,428</u>
Building and Site Fund:							
2004	26	-	42	-	-	-	68
2003	23	-	147	16	-	-	186
2002	2	71	44	-	-	-	117
	<u>51</u>	<u>71</u>	<u>233</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>371</u>
Total Taxes Uncollected	<u>\$ 1,472</u>	<u>\$ 1,906</u>	<u>\$ 6,242</u>	<u>\$ 327</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,947</u>

Hungerford, Aldrin, Nichols & Carter, P.C.

C P A s A N D C O N S U L T A N T S

August 22, 2005

The Board of Education
Kent City Community Schools

The following comments pertain to our audit of the financial records of Kent City Community Schools as of and for the year ended June 30, 2005. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Kent City Community Schools:

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Kent City Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Kent City Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Kent City Community School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Kent City Community School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Kent City Community School's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Kent City Community Schools are described in Note A to the financial statements.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in performing the audit of the financial statements of Kent City Community Schools for the year ended June 30, 2005. We found the internal control structure and accounting system to be basically adequate and operating in the manner intended.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

General Fund

1. \$19,063 to correct property tax allocations between funds and governmental units.

Food Service Fund

1. \$14,046 to record USDA bonus and entitlement commodities received during the year.

Proposed Audit Adjustments

There were no material adjustments proposed during the audit not recorded by Kent City Community Schools.

Suggestions And Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Kent City Community Schools to the Business Manager as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

Other Comments

The General Fund balance of the District decreased by \$230,957 to \$1,101,305 at June 30, 2005. This balance represents approximately 9.5 percent of the District's 2005-06 expenditure budget (down from 11 percent at June 30, 2004). Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Kent City Community Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Other Comments (Continued)

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Kent City Community Schools has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with District business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the District in maintaining and improving its systems.

This communication is intended solely for the information and use of the Kent City Community Schools Board of Education, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Kent City Community Schools and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

Hungerford, Aldrin, Nichols & Barton, P.C.

Certified Public Accountants